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RUEHIL/AMEMBASSY ISLAMABAD 3460
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RMHCSUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCNMEM/EU MEMBER STATES COLLECTIVE

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SIPDIS

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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT PASS TO USTR DHARTWICK/CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS MICHAEL NEWBILL AND EB/TRA JEFFREY HORWITZ AND TOM
ENGLE
PASS TO FAA THOMAS NASKOVIK
PASS TO DOT DAVID MODESSIT

E.O. 12958: N/A
TAGS: [EFIN](#) [EINV](#) [EAIR](#) [PTER](#) [KTFN](#) [PREL](#) [ENRG](#) [ECON](#) [IN](#) [PK](#) [IR](#)
GM, UK
SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS

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11. (U) Below is a compilation of Economic highlights from Embassy New Delhi for the week of June 18-22, 2007.

FIRST ROUND ON INDIA/EC FTA TALKS
TO BEGIN NEXT WEEK

12. (SBU) European Commission Trade Counselor Bermejo told us that the first round of negotiations for an Indian/EC FTA will begin next week in Brussels, following a two-month delay at the GOI's request. All negotiation rounds are expected to be comprehensive, and the EC has informed India that they will not allow negotiators from any specific sector pleading absences (this is apparently a favorite negotiating tactic used by the GOI when they wish to avoid making concessions in politically sensitive sectors). The Indians have imposed a two year timetable for the negotiations that should end theoretically in November 2008, in advance of the 2009 national elections. The ECN has not accepted this timetable. Also from the European side, apparently both Gordon Brown and Angela Merkel tentatively plan visits to India in the late September/October time frame (separate visits), according to their embassies.

INDIA TO HOST IRAN AND PAKISTAN
AT JUNE END TO DISCUSS PIPELINE

13. (SBU) India from June 27-29 will play host to Iranian and Pakistani delegations hoping to finalize a framework agreement on a proposed \$7.4 billion pipeline to bring gas from Iran to India through Pakistan, The Economic Times reported June 20. Bilateral meetings between India and Pakistan are to take place June 27. Trilateral meetings are planned for June 28 and 29 in New Delhi. Indian Petroleum Minister Murli Deora expects a second

ministerial-level meeting to ink a framework by mid-July. According to June 18 press reports, Deora said the pipeline project will launch "very soon" and noted that the GOI discussed the project with Pakistani PM Aziz during his recent visit to India. He said the GOI is in talks about pricing and logistics, adding that major issues have been sorted out already while pending issues like transportation fees and alignment will be worked out soon. The proposed pipeline would carry around 60 million cubic meters of gas per day from Iranian gas fields, split equally between Pakistan and India. [Comment: Econ does not expect the pipeline will be agreed to or built any time soon. However, we believe there is a possibility that some sort of very preliminary and prefatory framework understanding could be reached this summer. Any such "agreement" would be in part an exercise undertaken for different political reasons by each partner. End comment.] In an interview with the newspaper Mint on June 18, Planning Commission member Kirit Parikh forecasted that the pipeline will not happen in the immediate future as "people are changing the rules of the game all the time." Pakistan is demanding a transit fee for the pipeline portion running through its area that India deems too high, Parikh said. With Pakistan demanding more than \$1 per mBtu for transit, Parikh said it would be better to pay \$2 more per mBtu to get LNG directly from Iran instead of investing in a pipeline.

INDIA JOINS GLOBAL ANTI-MONEY
LAUNDERING CLUB

¶4. (U) This week's press reports highlighted India's Financial Intelligence Unit's (FIU) achievement as the newest member of the Egmont Group, an international body which facilitates and enhances exchange of information with counterpart FIUs and FINCENs. Admission to the Egmont Group, which was conferred at the group's May plenary session, is seen as a major step forward for India in joining the international community to fight against terrorism financing. While Egmont membership is an important consideration for joining the Financial Action Task Force (FATF), India must adopt

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several mandated recommendations, including passing specific legislation criminalizing money laundering and countering financial terrorism, to move beyond its current observer status in FATF. India's Admission into the Egmont Group was reported by several domestic and international newspapers, including the Economic Times, Daily India, and Malaysia Sun.

ANTI-MONEY LAUNDERING SEMINAR
FOR INDIAN BANKS

¶5. (U) USAID and Financial Services Volunteer Corps (FSVC) sponsored a seminar on June 21, 2007 titled "Detecting, Monitoring, and Reporting Suspicious Activity within an Anti-Money Laundering (AML) Framework." Presentations by Rosalind Lazar of Citigroup and Thomas Burnside of JP Morgan outlined how banks can create, develop, and implement an AML framework. About 12 representatives from various Indian banks and government agencies, including RBI and Financial Intelligence Unit (FIU), participated in the seminar and asked presenters to focus on how to use risk models involving businesses with high cash deposits (such as transport operators) and high net worth individuals.

¶6. (U) Bank representatives expressed concerns about competitiveness with non-AML compliant banks which are not forced to ask invasive questions to their customers. Presenters emphasized that Know Your Customer (KYC) policies and employee accountability require querying new and existing customers about fund source and business - which are critical to the success of any AML program. JP Morgan Senior Vice President explained that despite the concerns and initial loss of a few customers, the real profit for banks is with customers who want to grow internationally. Today, banks should be familiar with the global banking economy. Indian banks also need to consider reputation risk as a major incentive for investing in an AML program since loss of reputation is ultimately the real price for not complying.

¶7. (U) Many Indian banks, particularly public banks, are still in the initial stages of implementing AML programs and would benefit from a technical seminar to address challenges in monitoring and reporting suspicious activity. Some participants explained the difficulty of asking intrusive questions to customers. Most importantly, the seminar stressed that a successful AML program requires buy-in from all the stakeholders in a bank, including front line personnel, management, marketing department, and especially, the customers.

SHARP RISE IN REMITTANCES
TO INDIA

¶8. (U) A study by the Migration Policy Institute estimates that of the \$268 billion (World Bank figure) worldwide remittances in 2006, India accounts for nearly 10 percent. RBI has reported that Indian migrants transferred \$24.1 billion to India in fiscal year 2005-06. India continues to be the leading recipient of remittances in the world with World Bank estimates putting India in the lead at \$23.5 billion, followed by China at \$22.4 billion and Mexico at \$21.7 billion. Compared to RBI figures from 1990-91, when remittances were \$2.1 billion, India's dominant position in remittance receipts is relatively new. In 2005-06, remittances constituted 3.10 percent of India's GDP - a sharp rise from 0.7 percent in 1990-91. Moreover, in the same year, remittances were higher than the \$23.6 billion in revenues from India's software exports, which had increased 33 percent that year. The impact of remittances is more pronounced in parts of the country due to higher volumes of emigration. The southern state of Kerala sends many emigrants to the Gulf countries and remittances represent 22 percent of the state's domestic product.

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¶9. (U) The study outlines the main factors for the growth in remittances - including the diminishing role of unofficial channels, shifting emigration patterns to high-skilled technology jobs, greater competition in the money transfer market, and the strength of the Indian economy. First, the incentives to employ informal networks like hawalas to transfer funds have diminished with the government establishing a market-based exchange rate and increased international monitoring of such networks after the September 11 attacks. Second, many Indian IT workers have migrated to the US, mostly through H-1B worker visas, and more Indian professional workers are going abroad. This new class of highly-skilled workers has greater purchasing power and more saving potential than lower-skilled workers. RBI estimates that 44% of the remittances come from North America while 24% come from the Gulf Countries. Most significantly, the Indian government has demonstrated its ability to attract non-resident Indian (NRI) capital through NRI deposit accounts and successive bond issues. The report recommends the government and banking community look for strategic ways to offer higher rates of return on remittance receipts allocated towards specific assets or microfinance operations.

INDIA SIGNS FLIGHT SCHOOL DEALS
AT THE PARIS AIR SHOW

¶10. (U) India signed two MOUs on June 19, 2007 at the Paris Air Show to forge a partnership with Montreal-based Canadian Aviation Electronics (CAE) to enhance the capacity of GOI's existing flight school, Indira Gandhi Rashtriya Uran Akademi (IGRUA), and proposed National Flying Training Institute (NFTI). CAE will now become the managing partner of IGRUA and the majority stakeholder in NFTI.

¶11. (U) The NFTI will be a joint venture between CAE and the Airport Authorities of India with 51 and 49 percent of the equity, respectively. The Institute will provide fixed and rotary wing training for pilots using the Airline Transport Pilot License (ATPL) program which leads to the Multi-crew Pilot License (MPL) program. NFTI will be based in Gondia (in western Maharashtra), an electoral constituency of Civil Aviation Minister Praful Patel. The institute will operate new aircraft using CAE's course material and training equipment. The total projected investment for NFTI is expected to

be about \$25 million. Once it is fully operational, NFTI is estimated to produce approximately 200 pilots a year.

¶12. (U) CAE will also manage IGRUA's existing flight school activities, including maintenance of aircraft, flying operations, air traffic control, runway maintenance, navigation aids, and fire fighting facilities. IGRUA is located in Rae Bareilly (district in Uttar Pradesh), an electoral constituency of ruling Congress Party President Sonia Gandhi. The CAE-IGRUA MOU is expected to increase from an initial 40 cadet pilots to 110 cadet pilots per year and finally to 200 cadet pilots annually. While India currently has about 2,500 active pilots, an estimated 5,000 pilots will be required over the next 5 years to cater to the exponential growth in domestic air traffic. For example, the Air Passengers Association of India estimates that the annual air traffic growth rate in India has been around 26 percent over the past two years, causing the airline industry to order approximately 400 new aircraft for delivery by 2010.

INDIA CREATING MORE NEW JOBS
THAN ANY OTHER BRIC COUNTRY

¶13. (U) OECD's Economic Outlook 2007 reports that India is creating more jobs than any other BRIC (Brazil, Russia, India and China) country, generating 11.3 million net new jobs annually between 2000 to 2005 in contrast to China's 7 million, Brazil's 2.7 million, and Russia's 0.7 million. India alone accounted for half of the jobs generated by BRIC countries. Despite the good news, the report also

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cites concerns, such as the low level of employment elasticity to economic growth at 0.3 percent which indicates that fewer jobs are created as GDP rises. Also, the report says that India has among the lowest employment to population ratios with 50.5 percent as compared to at least 66 percent in the other BRIC countries. Rural unemployment continues to be a challenge in the BRIC countries, particularly India where there are an estimated 130 million surplus workers.

¶14. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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